U.S. Farm bill update

1995 US Farm Bill Update

Policy Analysis Branch
Legislative Buildings, Toronto, Ontario
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Ministry of Agriculture, Food & Rural Affairs

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Defining and Assessing Options

Process Delayed

Richard Lugar, Chair of the Senate Committee on Agriculture, Nutrition and Forestry, and Pat Roberts, Chair of the House Agriculture Committee, had both planned to have their 1995 Farm Bill proposals approved by their respective legislative bodies before the August recess. This objective was not met. Having to wait for progress in the budget process delayed the development of the 1995 Farm Bill. In the past, the Senate and House Agriculture Committees developed Farm Bill proposals and then made their case for the dollars to fund them. With a strong desire in Washington to balance the budget by the year 2002, it was agreed that the first task would be to agree upon a budget and then build a Farm Bill around it. As a result, the detailed development of the 1995 Farm Bill will be pushed back to the fall. The 1990 Farm Bill expires on September 30, 1995. It now appears that the 1990 Farm Bill will be extended until December 31, 1995.

Senator Lugar had proposed to cut farm spending by $15 billion over five years, while the Administration and many farm State members of Congress felt that farm spending had already declined enough. After considerable debate in the farm community and on Capital Hill, a compromise was struck that would see spending on commodity programs cut by $8.4 billion over 5 years and $13.4 billion over 7 years. There is considerable speculation that instead of a 5 year Farm Bill, Congress will pass a 7 year plan to match the budget proposal.

Although the work on the development of the 1995 Farm Bill has been slowed, it has not come to a halt. Through the spring and early summer, the Administration and the House and Senate Agriculture Committees held a series of public meetings with interested parties to discuss the future of US agricultural policy. Key farm lobby groups have been busy selling their views to members of Congress and the media. The Administration and a number of members of Congress have been putting forward proposals on specific issues and testing the reaction. While it is far too early to forecast the likely outcome, a consensus is forming on some of the elements and directions for the 1995 Farm Bill. Some of the key proposals are discussed below.

Options Under Discussion

1. Administration Proposal: In May, Agriculture Secretary Dan Glickman released a number of "guidance" papers that were intended to present the Administration's views on the future of US agricultural policy. The underlying theme of these papers was that current US agricultural policy was performing very well and needed only some fine tuning in the 1995 Farm Bill. Some of the key proposals were to:

- increase producer flexibility by allowing farmers to plant any program crop on their "base acreage" (see Planting Flexibility discussed below for details);
- maintain current target prices, but prohibit payments to farmers with off-farm incomes above $100,000;
- meet spending reduction obligations by increasing the mandatory "flex acreage" from 15 to 20 or 25 percent;
- introduce pilot projects for revenue insurance (like Gross Revenue Insurance Program in Canada) and income insurance (like Net Income Stabilization Account program in Canada) programs;
- maintain spending levels under the Conservation Reserve Program (CRP), but refocus dollars to the most environmentally sensitive land; and
- reduce Export Enhancement Program (EEP) spending only by the amount required by the GATT agreement, and redesign the program to maximize the level of exports.

Senator Lugar, and a number of reform-oriented members of Congress, indicated that the Administration proposals did not go far enough and that they would not have a major impact on the policy debate. While it is difficult to assess the impact, it is clear that the USDA and Secretary Glickman are making a concerted effort to influence the debate. For example, the push to give farmers increased planting flexibility is gaining

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support in both the halls of Congress and the concession roads of the Mid-West.

2. Planting Flexibility: In the past, producers had to plant the same amount of acres to each program crop (eg. corn, wheat) each year to maintain their "base acreage" upon which support programs (eg. target price) were based. With this rigidity, farmers often based their planting decisions on maintaining government support instead of on market signals. In particular, these rules encouraged producers to plant program crops like corn, wheat and cotton instead of non-program crops like soybeans. In the 1990 Farm Bill, Congress allowed planting flexibility on up to 25 percent of a farmer's crop base ("flex acres").

The Administration has suggested that producers should be allowed to plant any program crop without losing their "base acreage" for specific crops. This would allow producers to adjust their acreage between program crops on the basis of market signals instead of government support levels. It would retain, however, the distortion between program and non-program crops. Other groups, including the National Corn Growers' Association support full planting flexibility. Specifically, they have suggested that producers be allowed to plant any crop (or not plant at all) without the loss of target price support. This would involve the full "decoupling" of program payments from production decisions. Payments to producers would be based on historical plantings, not future cropping decisions. This is called the "Whole Farm Base" option. Pat Roberts has incorporated a variation on this concept in his "Freedom to Farm Act".

3. Freedom to Farm Act: In July, a proposal called the "Freedom to Farm Act" was put together by the Republican staff to the House Agriculture Committee. It appeared to be a trial balloon that Pat Roberts wanted to float before deciding whether to back the plan. In early August, Pat Roberts and House Agriculture Commodity Sub-Committee Chair Bill Barrett decided to get off the fence and support this proposal. Freedom to Farm is the ultimate in "decoupling" programs as farmers would receive deficiency payments based on their historical program benefits. At the same time, all other program instruments, such as base acreage, the 0/85 and 50/85 programs, target prices, commodity loans and the acreage reduction programs, would be eliminated. All compliance requirements would be removed except a few conservation requirements. For the most part, farmers would be free to plant whatever they want and as much as they liked.

Producers that participated in farm programs in at least three of the past five years would be eligible. They would be required to sign a seven year contract that specified what they would be paid each year and what they would do to meet the conservation requirement. Each year, the amount paid to producers would decline. The current Congressional Budget Office (CBO) base-line forecast includes $56 billion for commodity programs. The Freedom to Farm program would cost $43 billion, regardless of whether grain prices were high or low over this period. As a result, the $13 billion in savings required in the budget proposal would be assured.

Reaction to this proposal has been mixed. Some farm groups feel that this approach is simply "welfare" instead of providing farmers with a "fair" price for their annual production (ie. target price). Other groups support the push to getting governments out of farm decision making. It is too early to know how this proposal will fare as the debate heats up this fall. If some variation on Freedom to Farm is adopted, it is highly likely that US grain and oilseed production will increase over the coming years, especially soybeans. It may be that some crop land will be shifted to hay and pasture use as well. The USDA and the Food and Agriculture Policy Research Institute (FAPRI) will likely be doing an extensive analysis of the expected impact of such a plan before it is accepted or rejected by Congress.

4. Resource Conservation Act: In late May, Senators Lugar and Leahy (ranking Democratic members of the Senate Agriculture Committee) put forward bi-partisan legislation called the Agriculture Resources Conservation Act. This proposal is intended to focus the debate on the conservation title in the Farm Bill. The proposal suggests that the Conservation Reserve Program be continued, but with stricter eligibility standards. It has been estimated that with these stricter standards, the number of acres enrolled in the program could decline from 36.4 to about 20 million acres by the year 2000. Most of the de-enrolled acres would return to crop production, especially wheat. The Lugar-Leahy bill also proposes an Environmental Quality Incentive Program, which would provide "one-stop shopping" for conservation programs.

5. Sugar and Peanuts: Support for these commodities is based on maintaining high domestic prices by limiting imports. Separate efforts are underway within Congress to build support for the elimination of both programs. The group proposing the termination of the sugar program calls itself the Coalition to End Welfare for Big Sugar. This group argues that large multi-national corporations are the prime beneficiaries of the program. One example is Archer Daniels Midland (ADM) which benefits from the boost the sugar program gives to the high fructose corn sweeteners (hfcs) market. The opponents of the sugar program also point to the estimated $1.4 billion that it costs US consumers. A major effort is also underway in Congress to eliminate the peanut program. The opponents of the program point to the cost to

the taxpayers (forecast at $120 million for 1995) and consumers (estimated in the $300 to $500 million per year range).

The supporters of these programs point to the thousands of small and medium sized family farms that make their living producing sugar beets, sugar cane or peanuts. Traditionally, these industry groups have had considerable influence in Washington, especially the sugar lobby. At this point, the debate is polarized - there has been little discussion of possible compromises. As a result, it is very difficult to predict the outcome of the debate. If support is reduced for the other commodity programs, there will be considerable pressure to provide equitable treatment for sugar and peanuts.

6. Dairy: Steve Gunderson, Chair of the House Dairy Subcommittee, has taken the lead on the dairy policy debate. Mr. Gunderson has proposed the elimination of federal support for butter and nonfat dry milk, the consolidation of the current 38 milk marketing orders into 5 or 6 large regions and assistance to help the dairy industry increase exports. He has not proposed a reduction in the $10.10/cwt support price or to open the US market to foreign products by more than is required by the GATT agreement. The consolidation of milk marketing orders will allow for greater movement of fluid milk and a rationalization in production to the lower cost areas. Under this scenario, milk prices could be pushed lower and the $10.10/cwt support price may start costing the federal government money to maintain (market prices have been above the support level in recent years). If the other commodity programs face a reduction in support, there will be pressure to reduce support levels for dairy as well.

7. Other Programs: There has been little discussion of other issues like export programs and research. On the export program front, efforts to gather support for the termination of the Export Enhancement Program and the Market Promotion Program have not been very successful. Overall, there seems to be considerable support in Congress to maintain a strong federal role in the area of export promotion. There is also strong support for continued federal involvement in research. Senator Lugar has proposed an increase of $500 million per year for federal research funding.

Summary/Next Steps

The 1995 Farm Bill is being developed at a time when grain stocks are very tight and prices are relatively strong. It is also being developed at a time when Congress is working to balance the federal budget and deregulate the economy. At the same time, the attitudes of some farm organizations have shifted. The farmers in the south generally want to maintain the status quo, because it is very good for the products they produce (eg. peanuts, sugar, rice and cotton). Many corn, soybean and wheat producers in the mid-west, however, would like more freedom to plant what the market demands. The members of Congress, representing these various interests, must develop a compromise this fall that strikes an equitable balance, while meeting the budget reduction commitment.

Although it is too early to predict the final outcome, some key themes and directions are apparent. The main theme seems to be “get the federal government out of the micro-management of farm decision-making”. This could involve increased planting flexibility, reduced acreage reduction programs and the removal/reduction of subsidies that distort producer decisions. At the same time, there is support for maintaining a strong federal presence in research and export development. This combination of policy changes and directions can be expected to make the US grain and livestock sector even more efficient and competitive over time.

The date of September 22nd has been set for both houses of Congress to decide how to make the needed budget savings. Congressman Roberts is planning a meeting of the House Agriculture Committee for September 13th to 15th to decide on the details for the budget cuts. It is likely that Senator Lugar will hold a similar meeting with the Senate Agriculture Committee. The results of these discussions will have a major impact on the eventual shape of the 1995 Farm Bill.

After the budget issue has been dealt with, the House and Senate Agriculture Committees will turn to the development of the Farm Bill. Given the wide range of contentious issues, it is likely that these deliberations will continue well into the fall. Efforts to secure approval for each Committee’s plan from their respective legislative body could be pushed back to late October or November. After the House and Senate have passed their own plans, a conference committee must work out a compromise. The two houses of Congress would then have to pass this compromise plan before sending it to the President for signature. This could take the process into December.

The ministry will continue to distribute newsletters as key developments with the 1995 US Farm Bill arise.

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Ministry of Agriculture, Food & Rural Affairs
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Senate and House Proposals

Senate Proposal

On September 28th, the Senate Agriculture Committee approved a package of program changes designed to meet a commitment to reduce farm program spending by $13.4 billion over the next seven years. The eight Democrats on the Committee voted against the proposal, but nine of the ten Republican members voted in favour of the package. One Republican representative abstained because he felt the reforms did not go far enough. Some of the main elements of the package are described below.

1. Wheat, Feed Grains, Rice and Cotton: The largest single contribution in the Senate Proposal designed to reduce government spending is an increase in the mandatory non-paid "flex" acres. The flex acre concept was added to the 1990 Farm Bill as a budget cutting measure. Under that program producers did not receive deficiency payments under the target price program on 15% of their base acreage. The Senate proposal is recommending an increase in the non-paid acres to 30%. The proposal recommends that current target prices be maintained, but that a cap be placed on per unit payments to ensure that the budget commitments are met. These maximum payments are taken from the budget forecast prepared by the Congressional Budget Office (CBO) in February. For example, the deficiency payments for corn would be capped in the 53 to 57 cent per bushel range over the 1996 to 2002 period, while the wheat payment limit would decline from 90 to 95 cents in the late 1990's to 72 cents by 2002.

As an off-set against these budget cutting and limiting provisions, farmers would be given considerably more planting flexibility. The Acreage Reduction Program (ARP) would be eliminated and farmers would be given more freedom to plant whatever they wanted (except fruits and vegetables) without the loss of government support. For wheat and feed grains, current and future deficiency payments would be full "decoupled" from production decisions. Producers could plant wherever they want without affecting their support payments in that year or in the future.

Support under the rice and cotton programs, however, would not be fully decoupled. Rice and cotton producers may plant alternative crops without the loss of "base acreage" (ie. the basis for future support), but no deficiency payments would be paid on those acres in that year. This compromise reflects the different attitude towards decoupling in the main producing regions for these crops. Many producers in the U.S. mid-west support the decoupling concept, while farmers in the Southeast oppose this approach.

2. Dairy: USDA's authority to purchase non-fat dry milk and butter to support prices would be eliminated, but authority for cheese purchases would continue. The support price for milk would be reduced by 10 cents per year from the current level of $10.10 per cwt. If USDA cheese purchases exceed 1.5 billion pounds (milk equivalent), a further 25 cent per year reduction in the support price would be imposed.

3. Sugar and Peanuts: There has been some support in Congress for the elimination of the sugar and peanut programs. The Agriculture Committee, however, is recommending that, the current sugar and peanut programs be retained, but support reduced to maintain some equity with the other commodity programs being cut. The price support loan rate for sugar would be maintained at 18 cents per pound, but current "nonrecourse" loans would become "recourse". This

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would mean that if market prices fell below the loan rate, processors would not have the option of repaying the loan by forfeiting stocks to the government. If imports exceed 1.34 million metric tonnes, then the loans would become nonrecourse again. Any processor forfeiting a loan, however, would have to pay a 1 cent per pound penalty.

The price support rate for quota peanuts would be reduced from $678 to $628 per metric tonne. The national minimum quota would be eliminated and any additional peanuts produced without quota could be sold for domestic consumption if the market price exceeded 120% of the support level.

4. Export Programs: Spending under the Market Promotion Program would be reduced from $110 million to $75 million per year. Funding for the Export Enhancement Program (EEP) would be cut by 20% from the levels required to meet the US commitment under the Uruguay Round Agreement. The Sunflower and Cottonseed Oils Assistance Programs would be eliminated, but these commodities would be eligible for support under the EEP.

5. Crop Insurance: Participation in the disaster level/basic Crop Insurance program would no longer be required to participate in the other government support programs (eg. target price program).

6. Conservation Reserve Program (CRP): Total acreage covered is capped at 36.4 million. Current spending levels are frozen over the next four years and then reduced by about $130 million per year over the next three years. Under this proposal acreage covered by the CRP is expected to start declining in 1997 and fall below 17 million acres by the year 2002.

House Proposal - Freedom to Farm

House Agriculture Committee Chairman, Pat Roberts, was not able to secure support for his "Freedom to Farm Act" from a majority of Committee members. With the backing of the Republican leadership in the House, Mr. Roberts took his proposal directly to the House Finance Committee, where it was included as agriculture's $13.4 billion contribution to the overall budget proposal. The main elements of the Freedom to Farm Act (FTFA) are presented below.

1. Wheat, Feed Grains, Rice and Cotton: The FTFA would replace current programs (eg. base acreage, deficiency payments and marketing loans) with a seven year "market transition contract" available to producers who had participated in the wheat, feed grains, cotton or rice programs in at least three of the past five years. These contracts would guarantee each participant an annual declining payment, based on a percentage of a producer's historical payments, regardless of future plantings and prices. In addition to being decoupled from production, these payments would also be unrelated to prevailing market prices.

Producers would also have the option of taking low nonrecourse loans based on 85% to 70% of the previous five year average price. This program would be run at no net-cost to the government. The ARP would be terminated and farmers would be allowed to plant any crop, except fruits and vegetables. Total spending under this program would be capped at $7.6 billion in 1996, declining to $4.96 billion in the year 2002.

For wheat and feed grain producers, the FTFA has many similarities to the Senate Proposal - farmers would have full planting flexibility, there would be no ARP and they would receive a government payment that was decoupled from their production decisions. The main difference is that under the FTFA, payments are not affected by prevailing market price levels. Under the Senate Proposal, payments to producers would be reduced when market prices increased.

2. Dairy: Representative Steve Gunderson has included a major deregulation of the US dairy industry in the FTFA, that he has titled "Freedom to Milk". The Gunderson proposal includes the elimination of milk price supports and milk marketing orders. In its place, producers would receive "market transition" payments of between 5 and 15 cents per cwt. over a seven year period. Mr. Gunderson is proposing to retain the $100 million per year Dairy Export Enhancement Program.

The most controversial element of the proposal is the elimination of the milk marketing orders. Currently, the US is divided into 38 marketing regions. In each of

these regions, a minimum price is established for each class of milk and movement of milk between these areas is restricted. This policy limits competition and helps to support prices, especially in the regions that do not have a comparative advantage in milk production. The Gunderson plan represents a much more radical reform of dairy policy than the Senate Proposal. The National Milk Producers Federation strongly opposes the Gunderson proposal.

3. Sugar and Peanuts: The FTFA includes only minor changes to the sugar and peanut programs. These provisions were included by Mr. Roberts to secure the support of the Republicans on the Agriculture Committee from the Southeast. Even though this effort was not successful, Mr. Roberts did not change his proposal before sending it to the Finance Committee. The sugar and peanut programs could still face an attack on the House floor when the full 1995 Farm Bill is brought forward for approval.

4. Export Enhancement Program (EEP): Spending authority under the EEP would be reduced significantly over the next three years, being held at about the $400 million mark. By the turn of the century, the Uruguay Round limit would have declined to meet with this lower spending authority. Relative to the Senate proposal, the House plan would authorize significantly less EEP spending over the next three years.

5. Conservation Reserve Program (CRP): The House proposal caps the CRP renewal contracts at 75% of the current rental rate. Under this approach, much of the land that is reasonably well suited to crop production will not re-enter the program - it will be more profitable to plant crops than leave idle. An analysis of this proposal suggests that acreage in the CRP will start declining in 1997, falling to about 22 million acres by the year 2002.

Compromise Proposal

On November 15th, a joint House and Senate "Conference Committee" announced a compromise proposal. This compromise is much closer to the House Proposal than the Senate Plan, but some new twists were introduced. This compromise proposal has been titled the "Agricultural Market Transition Program". Some of the key elements are:

- the current target price program, the Acreage Reduction Program, 0/92 and 0/85 programs, and the Farmer Owned Reserve would be eliminated;
- the loan rate program would be maintained with rates set at $2.58/bu - wheat, $1.89 - corn, $4.92 - soybeans, $0.5192/lb - upland cotton; and $6.50/cwt - rice;
- the loan rate program would be run at a very low cost to government - with the exception of rice and cotton, the Secretary would have the authority to reduce loan rates if it appeared that producers would default on their loans (i.e. market price falls below loan rate);
- the minimum loan rate for rice would be $6.50/cwt and for cotton $0.50/lb;
- producers that have participated in the cotton, rice, wheat and feed grain programs in at least one of the past five years would be eligible to sign "production flexibility contracts" that cover the 1996 to 2002 period;
- under production flexibility contracts, producers would receive annual acreage payments on 85% of their land;
- on this 85% base, producers would be allowed to plant any program crop, oilseed, industrial or experimental crop, mung beans, lentils and dry peas - producers would not be allowed to use this land to produce fruits and vegetables or for haying or grazing over the five months of the growing season;
- on the remaining 15% of their land, farmers would be free to plant any crop, including fruits and vegetables;
- the individual payment limit for USDA programs would be reduced from $50,000 to $40,000;
- as part of the production flexibility contract, producers would not be required to purchase Crop Insurance but farmers without insurance must waive their rights to disaster assistance;
- the peanut program would be maintained, but the support price would be cut to $610/ton;

- for the sugar program, the Senate Proposal was adopted with only minor changes (see description above);
- the Conservation Reserve Program (CRP) would be capped at 36.4 million acres and producers would be given an "early out" option;
- if CRP land had a history of target price program participation, it would be eligible for support under production flexibility contracts when it was brought back into production (note: this provision could encourage producers to take advantage of the early-out option this spring);
- $100 million per year would be available for a Livestock Environmental Assistance Program (LEAP) to help livestock producers improve environmental and water quality;
- the Market Promotion Program would be capped at $100 million per year, saving $60 million over seven years; and
- EEP spending would be capped at $350 million in 1996 and 1997, $500 million in 1998, $550 million in 1999 and $579 million in 2000.

The conference committee was not able to come to a final agreement on dairy policy. This issue will have to be dealt with in the context of the full 1995 US Farm Bill legislative package that will be approved in December.

Impact Analysis - Grains and Oilseeds

The US Food and Agricultural Policy Research Institute (FAPRI) has done considerable analysis of how US grain and oilseed producers might respond to the proposed policy reforms. FAPRI has not specifically analysed the conference committee proposal, but they have assessed the FTFA that the compromise was based on.

The elimination of the ARP and reduced CRP acres will mean that more acres will be planted overall in the US. As well, with full planting flexibility and decoupled support payments, US farmers will respond more swiftly and dramatically to changing market signals. This will cause larger annual shifts in the area planted to specific crops and greater volatility in grain and oilseed markets. Below is a comment on the expected impact that possible US policy changes may have on soybean, corn and wheat markets over the coming years.

*1. **Soybeans:*** The removal of the distortions in the current policies is expected to result in an increase in soybean plantings in the US. These increased plantings would translate directly into higher production levels and lower prices. The FAPRI analysis suggests that the impact will not be as dramatic (eg. 3 to 4% lower prices on average relative to the current policy framework) as some Canadian soybean producers have feared. The increased planting flexibility provided in the 1990 Farm Bill has no doubt reduced the distortions created by US policy.

For the coming crop year, the corn/soybean price ratio is expected to favour corn planting. As a result, area planted to corn is expected to increase significantly, while soybean planting declines, despite the policy reforms. If the corn/soybean price ratio swings back towards soybeans next year, the policy reforms could allow for a massive increase in soybean plantings in the US in 1997 (see Table I for planting and price forecasts).

2. Corn: The FAPRI analysis indicated that area planted to corn in the US will increase significantly in 1996, despite the policy reforms. This would allow for the rebuilding of stocks and a significant reduction in prices. Reduced EEP spending would provide some support for the corn market. Specifically, lower EEP spending would mean higher world wheat prices and allow corn to be more competitive with feed wheat in off-shore markets.

The main threat to the corn market in the Farm Bill debate comes through the sugar program. The high fructose corn syrup (HFCS) industry has been a prime beneficiary of the US sugar program. An elimination of the sugar program would be a major set-back for the HFCS industry and would likely result in a reduction in US domestic demand for corn. It appears, however, that the main elements of the sugar program will be retained in the 1995 US Farm Bill. Reduced CRP acreage could also be expected to add another two or three million acres to US corn production by the turn of the century. This would have a negative impact on prices.

Overall, the kind of policy reforms being considered in the US can be expected to result in more acres being planted to corn relative to the policies of the past (eg. ARP and high CRP). This should have a dampening impact on prices. If the sugar program is retained and EEP spending reduced, however, the negative impact of policy reform on US corn prices would be limited.

3. Wheat: The effect that US policy changes will likely have on wheat prices is complicated by possible EEP spending cuts. With US and world wheat stocks so low, USDA has essentially suspended the current EEP program. In the FAPRI analysis, it is assumed that wheat stocks will be re-built next year and the USDA will use the EEP to the full extent allowed by budget authority. By subsidizing wheat exports, the EEP distorts US and world wheat prices. It reduces wheat available to the domestic market and artificially increases export sales. The net effect is that the program supports US domestic prices, while depressing the off-shore market. A rapid reduction in EEP spending would have a negative impact on US prices, while giving a boost to off-shore markets.

The FAPRI analysis suggests that if CRP acreage did not decline, then US policy reforms would result in a reduction in US wheat plantings as corn and soybean acres increased. Much of the acreage that will be coming back into production from the CRP, however, is best suited to wheat production. As a result, US wheat acreage is expected to remain relatively steady under the reform package.

Table I: Forecast US Grain and Oilseed Plantings and Prices Under FTFA Proposal

Soybeans	**95-6**	**96-7**	**97-8**	**2002**
Acres (Millions)	62.6	61.6	66.5	64.2
Farm Price ($/bu.)	6.80	6.40	5.95	5.79
Corn				
Acres (Millions)	71.3	82.4	79.7	84.7
Farm Price ($/bu.)	2.97	2.34	2.26	2.31
Wheat				
Acres (Millions)	69.1	72.4	68.2	68.3
Farm Price ($/bu.)	4.24	3.33	3.22	3.26

Source: Food and Agricultural Policy Research Institute, University of Missouri-Columbia, 101 S. Fifth St. Columbia, MO, 65201, phone (314) 882-3576.

Summary/Next Steps

A lot more work is required before a full 1995 US Farm Bill legislative package will be ready for the President to sign. To meet the December 31st deadline, this work will have to advance quickly. The pressure to have less government involvement in US agriculture, both through subsidies and regulation, can be seen in every program proposal. The extent of the reform, however, is expected to vary by program, reflecting the views of the affected producers. Although the US government decision making process can produce last minute surprises, the following trends can be seen at this point:

- there will likely be major reform of the wheat, feed grain, rice and cotton support programs;
- spending under the EEP program will be cut from the levels required to meet the Uruguay Round commitments; and
- the sugar and peanut programs will survive, but with lower support levels.

The extent of the reform to the dairy policy is still to be determined. The House is pushing for major changes, while the Senate has approved a more modest reform packages.

It is not clear whether the Administration will insist upon a re-working of the Agriculture components of Congressional Budget before the President will sign. It is likely, however, that President Clinton will demand a smaller tax cut with more money going to Medicare and Medicaid, not to agriculture.

With the focus to date being entirely on the budget commitment, the debate on a number of other policy issues like research, rural development and environmental programs has not gotten into high gear. Over the coming weeks, Congress will have to combine proposals in these areas, with the provisions in the budget proposal that is eventually approved, to form the full 1995 US Farm Bill legislative package.

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7 Year U.S. Farm Bill Approved

Introduction

On April 4th, President Clinton signed the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, bringing the new Farm Bill into law. The FAIR Act will govern U.S. federal agricultural policy over the next seven years (i.e., fiscal 1996 to 2002). The Act covers nine policy areas, or "titles". These individual titles are: Agriculture Market Transition Act (i.e., commodity programs); Agricultural Trade; Conservation; Nutrition Assistance; Agricultural Promotion; Credit; Rural Development; Research, Extension and Education; and Miscellaneous.

In many respects, the 1996 Farm Bill represents a major departure from earlier U.S. agriculture policies and over time will likely have a significant impact on Canadian and world agriculture. This paper is intended to help ministry clients understand the content and potential implications of the new U.S. Farm Bill. The passage of the FAIR Act does not mean that the U.S. agricultural policy debate will be dormant until 2002. Some policy issues were not dealt with in detail, in the 1996 Farm Bill and will need a more complete review in coming years (eg. research, extension and education). Continued budget pressure could also force program changes. As well, the U.S. will likely review their domestic policies in preparation for the next round of international trade talks scheduled to begin in 1999. As such, ministry clients can use this paper as a reference document to provide context and background when following future U.S. policy developments.

This paper provides a detailed description of the provisions in the 1996 Farm Bill and an analysis of the implication of the new U.S. policies from a number of perspectives. Specifically, the analysis section examines the potential implications for agricultural commodity markets, for U.S. trade policy and for the competitive position of U.S. producers. This paper also includes a comparison of the support provided to U.S. and Ontario grain and oilseed producers through the main programs available to them.

Policy and Program Outcomes

Title I - Agricultural Market Transition Act

Significant changes were made to the U.S. commodity support programs. For the main field crops like corn and wheat, the U.S. is taking a completely different approach to providing support. The dairy program also faces major reform, but changes to the sugar and peanut programs were relatively small.

Production Flexibility Contracts (PFCs): The target price program that covered corn, wheat, barley, oats, sorghum, cotton and rice has been eliminated. Production Flexibility Contracts (PFCs) have been introduced as a replacement. Under the PFCs, producers of these commodities will receive annual acreage payments for seven years if they register for the program. To be eligible, land must have been covered by the earlier programs in at least one year over the 1991 to 1995 period, or be base acreage included in the Conservation Reserve Program (CRP).

Payment rates will be established each year to meet spending targets. Any overpayments under the target price program for the 1994 and 1995 years are to be netted out of a producer's acreage payment. The savings from this netting out procedure, however, will be reallocated to all farmers that sign up for the PFC program. It is expected that more farmers will participate in the PFC program than were covered by the target price program in 1994 and 1995. As a result, farmers that must return overpayments under previous programs will only recover a portion of these dollars through the PFC payment.

The size of individual acreage payments will depend upon the number of producers that register. Table I attached provides the total annual spending figures and a preliminary estimate of per bushel acreage payment rates assuming 100% participation. If participation is below 100%, the acreage payments will be increased accordingly to ensure that the total dollars are spent. To estimate a producer's entitlement, the payment rate per bushel is multiplied by the individual "base yield" (five year average frozen at the 1985 level) and 85% of their "base

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acreage". Table II attached provides an example to illustrate how the payment would be calculated for a 650 acre grain and oilseed farm.

To participate in the PFC program, U.S. farmers must agree to comply with conservation and wetland provisions, keep contract acres in agriculture or related uses and purchase catastrophic crop insurance coverage unless they agree to forgo any disaster payments that may be provided in the future. In a situation where a producer rents land, the benefits of this program are intended for those facing the risk of producing a crop. Under a share rent lease, the producer and the owner would have to enter the contract together. Even in many cash rent arrangements, the consent of the landowner may be required for the producer to enrol the acreage in the program.

For the 1996 crop, the initial 50% payment will be made within 30 days of sign-up and the remaining payment will be delivered by September 30, 1996. In future years, participants may receive the initial 50% payment on December 15th or January 15th (producer choice). The final payment is due before September 30th. The limit on annual payments to individuals has been reduced from $50,000 under the target price program to $40,000 with the PFC plan. A producer involved in more than one entity can receive $20,000 on up to two additional operations.

Total spending under the PFC program over the next seven years will be about $36 billion. This is down slightly from the total of about $39 billion spent under the target price program over the past seven years. Under the PFC program, producers will receive the same payment regardless of market prices. As a result, if grain and oilseed prices remain strong over the next couple of years, producers will receive more under the PFC than they would have had the target price program remained in place.

The USDA has estimated that spending under the PFC program over the next seven years could be about $15 to $20 billion higher than had the target price program remained in place. With the federal government signing contracts with producers it will be difficult to cut spending under this program. As a result, any future budget pressure will likely be deflected to other programs.

Supply/Price Management and Planting Flexibility Programs for Field Crops: In the past, the USDA has attempted to do some management of grain and oilseed production and prices through programs that limited planting or held crop off of the market when prices were low. For the most part, these efforts are being eliminated in the FAIR Act.

Specifically, the new legislation:

- terminates the Acreage Reduction Program (i.e., set-asides), the 0/85 and 50/85 programs and the Farmer Owned Reserve; and
- provides nearly full planting flexibility (the exception being fruits and vegetables, which can only be grown on 15% of base acreage).

There are some exceptions to the limitations on planting fruits and vegetables. For example, if a region has a history of double-cropping vegetables, then the planting of these crops are permitted without penalty.

Assuming that previous efforts by USDA to limit production and stabilize supply had some impact, the removal of these initiatives can be expected to allow for greater swings in acreage planted to specific crops and increased production, at least over the long-term. This could lead to more volatile and perhaps lower world grain and oilseed prices over time.

Crop Insurance/Risk Management: The new legislation requires the establishment of a new "Office of Risk Management" to administer the crop insurance and other risk management programs. Under the Federal Crop Insurance Reform Act of 1994, producers were required to purchase catastrophic crop insurance coverage or forfeit commodity program benefits. The new law allows producer's to opt out of crop insurance without a penalty as long as they sign a document waiving their eligibility for any emergency crop loss assistance. The FAIR Act also authorizes the continuation of the options pilot program through 2002 and requires the development of a revenue insurance pilot program.

Loan Rates: Loan rates for wheat, corn and oilseeds will be set at 85% of the previous five-year average price, excluding the high and the low years. This is subject to a number of limitations designed to contain program costs. The wheat and corn loan rates may not exceed the 1995 levels of $2.58 and $1.89 per bushel, respectively. As well, if the stocks-to-use ratio exceeds specific trigger levels, the Secretary may reduce loan rate levels for these crops (eg. if the stocks-to-use ratio exceeds 30%, then loan rates can be reduced by 10%). For soybeans, the loan rate may not fall below $4.92 per bushel and may not rise above $5.26 per bushel. The USDA would like to avoid the problems of the early 1980's when market prices fell below the loan rates and the U.S. government built large stocks. The new Farm Bill appears to contain sufficiently low loan rates (with flexibility to move lower) to avoid a repeat of the stock-building days.

Dairy: The debate on the future of dairy policy was extremely volatile, with proposals ranging from maintaining the status quo to moving to a full open market/no support system. In the end, a proposal put forward on the floor of the House of Representatives was included in the final legislation. This proposal was advanced by Republican Gerald Solomon and Democrat Calvin Dooley. Their plan calls for major reforms to be phased in over a number of years.

Under the previous policy, the U.S. government, through the Commodity Credit Corporation (CCC), purchased butter, skim milk powder and cheese to provide support for fluid milk prices at specific minimum levels. Under the new legislation, this policy will continue for four years, but the support price will be reduced from $10.35/cwt in 1996 to $9.90/cwt in 1999. After this four-year phase-down, the support price program will be eliminated. Starting in the year 2000, the CCC will offer a recourse loan (i.e., must be repaid with cash and not surplus commodity) program for milk processors that produce cheese, butter and nonfat dry milk. The loan rates will be established in a manner that reflects an equivalent value of $9.90/cwt of milk. It is expected that this replacement program could provide some seasonal support to milk prices when supplies exceed usage. The program, however, will not provide an effective floor price since the loans cannot be repaid with surplus processed products should prices fall below the loan rate. As a result, the new approach is not expected to be as effective as the current policy in supporting prices when there is an extended period of supply and demand imbalance.

The new legislation also calls for a consolidation of the milk marketing orders from 33 to between 10 and 14 by early 1999. In this consolidation, the State of California will be maintained as a separate milk marketing order. The new legislation also allows for the possible creation of the "Northeast Dairy Compact" to regulate fluid milk in the New England States, subject to the approval of the Secretary of Agriculture, until the marketing orders are consolidated.

The new legislation directs the Secretary of Agriculture to implement the Dairy Export Incentive Program (DEIP) at the maximum volume and funding levels allowed under the GATT Uruguay Round commitments. The FAIR Act also authorizes the Secretary to assist the U.S. dairy industry to establish and maintain an export trading company to facilitate international market development for U.S. dairy products. The new legislation directs the USDA to perform a study of the impact the additional access for cheese imports allowed under the Uruguay Round agreement has had on U.S. milk prices, dairy producer income and the cost of federal dairy support programs.

Sugar and Peanuts: The sugar and peanut programs both faced a rough ride on the floor of the House of Representatives. Amendments proposing to eliminate or phase-out these programs were narrowly defeated. The final legislation, however, contained relatively minor changes to these programs. Loan rates for raw cane and refined beet sugar were frozen at the previous levels of 18 and 22.9 cents per pound, respectively. The legislation suspends the marketing allocation program, which periodically restricted processor's capacity to market domestic sugar and therefore supported market prices. Instead, the new legislation introduces a recourse loan for cases where imports are below 1.5 million short tons. If imports exceed this level, the loans become non-recourse (i.e., can be paid by forfeiting sugar to the CCC), but a one cent per pound penalty is assessed against forfeited sugar. The import tariffs that were agreed to under the Uruguay Round negotiations will remain in place under the new legislation.

Support under the peanut program was cut by more than the sugar plan, but the basic features of the program (eg. high import tariffs, production quota and support price) remain intact. The support price for peanuts produced within quota has been reduced from $678 to $610 per ton.

Commission on 21st Century Production Agriculture: The Republicans had hoped to eliminate the 1938 and 1949 "permanent law" as part of the 1996 Farm Bill. It was felt that eliminating the permanent law would increase the probability that this would be the last U.S. Farm Bill and that the commodity support programs would disappear after 2002. The Democrats, however, insisted upon retaining the permanent law. Both sides agree to establish a Commission on 21st Century Production Agriculture. The Commission will examine the appropriate role of the Federal government in dealing with production agriculture. This commission is to provide an initial report to the President and the Congress by June 1, 1998 and a final report no later than January 1, 2001. By maintaining this permanent law the probability that there will be another Farm Bill in the year 2002 has perhaps been increased.

Title II - Agricultural Trade

In the area of trade, the new Farm Bill indicates a shift away from supporting the export of primary bulk commodities and a reallocation of resources to value added products. The U.S. will also result in a shifting of support towards countries taking steps towards a market economy. Some of the key changes in the areas of international food assistance and international market development are outlined below.

Export Enhancement Program (EEP): Spending under the EEP will be cut and capped through the year 2002, resulting in a saving of $672 million. This represents a 17.4% cut in spending relative to the previous authority. Most of this cut, however, is scheduled for the next two years. The annual limits are set at: $350 million in 1996; $250 million in 1997; $500 million in 1998; $550 million in 1999; $579 million in 2000; $478 million in 2001; and $478 million in 2002. If wheat prices remain strong over the next two years, the U.S. may not even spend the currently authorized level. Up to $100 million will be made available annually for the sale of intermediate-value products, such as wheat flour and vegetable oils.

If world wheat stocks recover, EEP spending levels of over $500 million through the 1998 to 2000 period could have a significant negative impact on international wheat prices. The U.S. has the spending authority to use the EEP to put pressure on its trading partners to agree to major reforms during the next

round of World Trade Organization (WTO) talks, if it decides to do so.

Market Access Program: This program was formerly known as the Market Promotion Program. The program is intended to help small businesses, non-profit trade associations and co-operatives promote U.S. agricultural products in export markets. Spending under this program has been capped at $90 million annually, which represents a cut of $20 million.

Export Credit Programs (GSM-102 and GSM-103): Spending under short-term (GSM-102) and intermediate-term (GSM-103) credit guarantee programs has been maintained at $5.5 billion annually, but there will be greater flexibility to move money between the two programs. A greater emphasis will be placed on high-value products. To be eligible in the past, a processed product had to be 100 percent American produced. Under the new rules, products need only contain 90 percent U.S. content to be eligible. The new law also dictates that a minimum amount of spending must be put towards high-valued products. The minimum is set at 25 percent in 1996, increasing to 35 percent by 2002. The new Farm Bill also dictates that at least $1 billion, over the 1996 to 2002 period, be directed to countries taking steps towards a market-oriented economy.

Embargo Compensation: New in the 1996 Farm Bill is a provision that U.S. producers should be compensated for any negative impacts that may result if the U.S. government unilaterally imposed an embargo on exports to another country. This provision would kick-in if no other country joined the embargo within 90 days on any U.S. action. In this case, direct payments would be made to U.S. farmers on the basis of USDA's estimate of the loss suffered as a result of the impact of the embargo on U.S. prices. This provision could reduce the chances that the U.S. government will impose unilateral embargos in the future.

Food for Peace (PL 480): The U.S. Food for Peace Program, also known as PL 480, has been extended through the year 2002. Under the export credit portion of the program a higher priority will be placed on countries with greater potential to become commercial markets for U.S. commodities.

Title III - Conservation

When the Republicans took control of Congress in November of 1994, it was felt that their fiscally conservative/business oriented agenda would translate into a reduced emphasis for environmental programs. In fact, the thrust towards environmental support is strong in the FAIR Act. A number of environmental programs were maintained or re-packaged and new programs were added. For example, to be eligible for benefits under the Production Flexibility Contracts (PFC) program, producers must comply with conservation and wetland provisions. Some of the key conservation programs and policies are described below.

Conservation Reserve Program (CRP): The new legislation caps the amount of land that may be covered by the CRP at the current level of 36.4 million acres. Farmers can terminate contracts if their land has been covered by the program for more than five years and it is not designated as particularly environmentally sensitive. Land taken out of the CRP is eligible for production flexibility contracts if it is included in a producer's base acreage. The USDA can re-invest any savings from farmers exiting early to enrol other environmentally sensitive land.

It is expected that over time there will be fewer acres enrolled in the CRP. Estimates of the number of acres that will be enrolled in this program by the year 2002 range from 20 to 30 million acres. In terms of the potential impact on U.S. grain and oilseed production (especially wheat) and world price levels, this is clearly the largest unknown in the 1996 Farm Bill. By the fall of 1997, 23 million acres are eligible for release from the CRP. The number of these acres that will return to crop production will depend upon a number of factors, including: 1) the rules that USDA set for release (eg. environmental restrictions); 2) the money available for re-enrollment; 3) the capacity of producers to farm the land without making major investments (eg. drainage, land clearing, machinery); and 4) the grain and oilseed market situation.

Environmental Quality Incentive Program (EQIP): This is a new initiative that essentially re-packages four existing programs into one. This program provides technical assistance, cost-shared payments and other incentives to farmers facing threats to soil, water, grazing land, wetlands and wildlife habitat. Projects may include manure management, irrigation projects, tillage methods, filter strips and other conservation practices. Although more work is needed to clarify the definition, support for animal waste management facilities are not meant for "large" livestock enterprises. Government assistance is provided to farmers through five to ten year contracts designed to produce specific environmental benefits. The government's contribution to cost-shared agreements is not to exceed 75 percent. The per-farmer payment is also limited to $10,000 per year or $50,000 over a multi-year contract. Total spending under this program has been set at $130 million in fiscal 1996 and $200 million per year thereafter until 2002. Half of the assistance is to be directed to livestock producers.

Conservation Farm Option: This is a pilot program to provide assistance to farmers in implementing environmental farm plans. Funding for the program starts at $7.5 million in 1996, increasing to $62.5 million in fiscal 2002.

Title IV - Nutrition

There was very little discussion of this issue in the Farm Bill debate. The food stamp program was extended to the end of the 1997 fiscal year. The future of this program will be decided through the overall welfare reform debate that is expected to be an issue for discussion in the Presidential election campaign this summer and fall. Action on U.S. welfare reform can be expected in 1997.

Title V - Agricultural Promotion

This title of the Farm Bill provides the legal authority for farm organizations to raise funds through producer check-offs to finance generic promotion, research and information activities. Every promotional program is to be overseen by a board, chosen by the Agriculture Secretary, in consultation with the relevant producer group. For example, the FAIR Act established a promotional program for canola and rapeseed. A 15-member National Canola and Rapeseed Board will develop research, promotion, consumer and industry information programs for the industry. The initial check-off rate will be 4 cents per hundredweight, but the legislation allows the rate to increase to as high as 10 cents.

Title VI - Credit

The role of government in the farm credit system was not discussed in detail during the 1996 Farm Bill debate. As a result there were few changes to current policy and programs. In recent years, the Farmers Home Administration (FmHA) had been reducing direct lending in favour of loan guarantees. This trend was re-enforced in the FAIR Act. As well, the new Farm Bill tightens the focus of FmHA lending. Farm loans will no longer be available for recreational uses and facilities, enterprises to supplement farm income, solar energy systems, rural small-business enterprises or pollution control projects. The new Farm Bill directs the Agriculture Secretary to conduct a study of the demand and supply of credit in the rural areas for agriculture, housing and development. It is likely that this study could lead to a more meaningful debate on the future role of the U.S. government in this policy area.

Title VII - Rural Development:

Early in the Farm Bill debate, it appeared that the Republican majority in Congress would push for a reduced federal role in the area of rural development. The option of transferring greater responsibility to the State and local levels was considered. The Administration, however, pushed hard for a continued presence for the federal government in this policy area. In the end, the federal government has maintained a strong presence in rural development. Some of the new programs and program changes are described below.

Fund for Rural America: As a condition for securing the President's approval of the total package, the Democrats insisted on including a new program called the Fund for Rural America in the FAIR Act. This program provides USDA with the authority to spend $100 million per year in fiscal 1997, 1998 and 1999. One-third of the money is for rural development projects (eg. housing, business and infrastructure grants and loans), one-third is for agricultural research and the final one-third may be allocated between rural development and research at the discretion of the Agriculture Secretary. The research grants are to be awarded on a competitive basis for terms of up to five years. Projects must contribute to improving international competitiveness, efficiency and farm profitability and to enhancing the environment/natural resource base.

Rural Community Advancement Program (RCAP): This new initiative reorganizes and consolidates a wide range of rural development programs. The program will provide grants, loans, loan guarantees and other support to rural communities with populations below 50,000. Priority will be given to the smallest and poorest rural communities. USDA will work with state and local governments and various private and community organizations to prepare a plan for delivering support under this program in each state. Programs will be consolidated in three categories:

- support for rural community facilities like community centres;
- support for rural utilities like water and wastewater disposal and solid waste management; and
- support for rural business and cooperative development.

The RCAP does not include rural housing and 5 to 15 percent of the funds are to be transferred to the states through block grants.

Telemedicine and Distance Learning: The FAIR Act authorizes the USDA to provide grants and low interest loans (cost of money to the federal treasury) for the construction or development of computer networks, telecommunication systems and other facilities to provide telemedicine and distance learning services to rural areas. Funding for this program of $100 million per year over the fiscal 1996 to 2000 period has been authorized.

Amendments to the Consolidated Farm and Rural Development Act: The FAIR Act authorizes $590 million annually for water and waste treatment grants, an increase of $90 million over the previous law. The new Act also authorizes $7.5 million annually for grants to help rural businesses develop new opportunities and $50 million per year to help rural cooperatives expand and create jobs (Rural Cooperative Development Grants).

Title VIII - Research, Extension and Education

There was little discussion of the federal government's role in the area of research, extension and education activity in the 1996 Farm Bill debate. As a result, the FAIR Act simply extended the current authority for these areas, with very few changes, through the end of the 1997 fiscal year. It was felt that this area was important enough to warrant its own policy debate after the November elections. Some changes were made in the FAIR Act regarding measuring outcomes and disseminating research results. The USDA has been directed to develop a system to monitor research and extension projects and measure outcomes relative to goals. The USDA is also directed to develop a new Management Information System to use state-of-the-art technology to improve public access to research findings.

Title IX - Miscellaneous

The miscellaneous title covers a wide range of unrelated programs from the Swine Pseudorabies Eradication Program to the USDA Student Internship Program. For the most part, current programs authorized under this title were extended with no changes. There were, however, a few program changes of note. For example, the FAIR Act authorizes expenditures of up to $100 million per year through the year 2002 for agricultural quarantine inspection. Any costs above this level must be recovered from users through fees. After 2002, the program must be fully cost-recovered. This provision could mean higher costs for some Canadian exporters. The FAIR Act also establishes a new seven member Safe Meat and Poultry Inspection Panel to advise the USDA on inspection procedures regarding adequacy, necessity, safety, cost-effectiveness and scientific merit.

Impacts of 1996 U.S. Farm Bill

Economic Impacts

The 1996 Farm Bill is being implemented at a time when grain and oilseed prices are very strong. This provides good returns to grain producers, but hurts the profitability of the livestock sector - especially beef cattle. For the most part, this situation has been created by market fundamentals and not government policy (although the 7.5% corn set-aside in 1995 did make some contribution to reduced production). This serious imbalance has created some very strong signals that will drive producer decision-making and markets over the next few years. The 1996 Farm Bill will give U.S. producers the freedom to respond fully to these market signals.

The Food and Agriculture Policy Research Institute (FAPRI) updated their long-term agricultural commodity price outlook in April after the 1996 Farm Bill was signed into law. Table III attached includes their base-case forecast of the average farm price for key commodities.

1996 Crop Impact: This forecast is based on the assumption that there will be normal crops each year. In the real world, average U.S. and world crop yields are rarely "normal". In a case where crops are poor, stocks tight and prices strong (current situation), the new Farm Bill will have little impact on production or prices. This is especially the case in a situation when the market signal favour corn over soybeans (current situation). If the 1990 Farm Bill had remained in place there would have been no set-asides and U.S. farmers would have planted about the same amount of corn as they did this spring.

The only noticeable impact of the new Farm Bill for the 1996 crop is that U.S. farmers will have more money in their pockets. Under the target price program there would have been little or no payments, while U.S. producers will receive $5.57 billion this year through the PFC program. To put this figure into perspective, total crop cash receipts for the U.S. in 1996 are forecast to be about $100 billion and the net cash income for all of U.S. agriculture is expected to be about $50 billion (not counting the PFC payment). As a result, the PFC payment will add over 5% to crop receipts and more than 10% to net cash income.

The impact that the 1996 Farm Bill will have this year will depend upon what farmers spend this additional money on. Some of this money will be bid into land purchase and rental values, others will invest in new technology to increase yields (eg. precision farming technology) and competitiveness (eg. new machinery), some will pay down debt, while others will increase off-farm consumption or savings. It is likely that many U.S. producers will use these dollars to prepare for the time when grain and oilseed stocks are rebuilt and prices have returned to more "normal" levels.

Longer-term Grain Market Impact: The policy changes in the 1996 Farm Bill can be expected to have a more significant impact on the crop mix (compared to the previous policies) when the market signal favours soybean planting. Under earlier Farm Bills, U.S. producers would suffer a reduction in government support if they switched significant acreage to soybeans. This limited U.S. producers' response to relatively high soybean prices. Under the new Farm Bill, U.S. producers can respond to a market signal to increase soybean production without the loss of government support. So if the soybean/corn price relationship swings back in favour of soybeans in 1997, U.S. producers may well respond with an unprecedented move to soybeans.

Similarly, the policies in the 1996 Farm Bill can be expected to have a more significant impact (compared to earlier policies) when grain and oilseed stocks are burdensome and prices are low. Good crops world-wide over the next couple of years would allow for a rebuilding of stocks and push grain and

oilseed prices lower. In the past when stocks were burdensome the U.S. would institute set-aside programs for feed grains and wheat. Under the new Farm Bill there will be no more set-aside programs. This could mean that when grain and oilseed prices move lower they may fall more and remain lower for a longer period, relative to the situation that may have unfolded had the previous policies remained in place.

The other two major wild-cards in the grain and oilseed outlook are the Conservation Reserve Program (CRP) and the Export Enhancement Program (EEP). As is noted earlier in this paper, about 23 million acres of CRP land are eligible to come back into production by the fall of 1997. It is very difficult to forecast how much of this land will be in production by 1998. As well, with U.S. and world wheat stocks at extremely low levels it is likely that the U.S. will make little use of the EEP program in 1996 or 1997. By 1998, however, world wheat stocks could be rebuilt. In fiscal 1998, the USDA has $500 million in their EEP budget to help the U.S. gain a larger share of the world wheat market. The U.S. could again use the EEP as a tool to encourage their trading partners to agree to make major reforms during the next round of World Trade Organization (WTO) talks, scheduled to begin in 1999.

Other Economic Impacts: In as much as the new Farm Bill will allow U.S. oilseed producers to respond more swiftly and dramatically to a market signal to grow more soybeans, then livestock producers would benefit from more competitively priced soybean meal. The elimination of set-aside programs for feed grains and wheat should also provide greater access to competitively priced feed for U.S. livestock producers.

U.S. input suppliers, grain handlers and livestock producers have been critical of the set-aside and base acreage programs. They expect the elimination of these programs to result in increased U.S. grain and oilseed production and lower prices, at least in the medium to longer-term. The U.S. machinery and input supply industry (including market and crop consultants) are expecting to gain from the new Farm Bill as farmers will have more money to spend in the short-term and greater capacity to produce over the long-term. These sectors will also benefit from the recognition by U.S. producers that they need to invest in the capacity to remain competitive through low price periods because there will be less government support during those times.

If grain and oilseed prices fall to the levels indicated in Table III attached (eg. $2.23/bu. for corn in 1999), U.S. producers will be receiving less support through the PFCs than they would have under the previous target price program. In a situation where prices are low and government support limited, there will be considerable pressure in the U.S. grain and oilseed sector to rationalize the farm structure. Many smaller operations will face serious cash-flow and income problems, while mid-sized and larger farms will need to expand to maintain their income levels and take full advantage of the available technology.

Dairy: With the phasing-out of the price support program, U.S. milk prices to producers are expected to decline in all regions of the country through the year 2000. The consolidation of the milk marketing orders from the present 33 to 10 to 14 will add to the pressure on prices. In as much as the new Farm Bill will allow for increased grain and oilseed production over the medium to long-term, the U.S. dairy industry will benefit from lower feed costs. Dairy model farm analysis performed by FAPRI indicated that most U.S. dairy farmers should be able to maintain or improve their cash-flow and equity positions over the next five or six years. In their analysis, the model farms that were forecast to loose ground financially tended to be moderate and large size dairies located in the Northwest, Southeast and Southwest.

Impact on U.S. Trade Policy/Negotiating Position

The 1996 Farm Bill debate and the final product - the FAIR Act - have prepared the groundwork for the U.S. to push for further international reforms through multilateral (WTO) and bilateral forums.

Domestic Subsidies: The U.S. government has started to prepare the farm community for the elimination of high cost transfer/safety net programs. Although a final decision has not been made about support programs beyond the year 2002, the signal to producers is that the safety net will be limited. Instead of high cost transfer programs, the government may offer lower cost "risk management tools" like catastrophic crop insurance or support for buying options.

Indeed, the PFC program can be viewed as a target price "buy-out" program, much like the Canadian Government's Crow Buy-Out program in Western Canada. The PFC funds can be used by U.S. producers to pay down debt or invest in their operation to become more competitive. Either way, producers that take this option will be more prepared to deal with a scenario where there is little or no government safety net after the year 2002.

Market Access: The phasing-out of the dairy support program and the consolidation of marketing orders will improve the competitive position of this sector. Although the sugar and peanut programs were retained, the fact that they were almost eliminated this time around would indicate that there may be some political support to "trading-off" these programs as part of a multilateral agreement. These domestic policy developments suggest that the U.S. will be prepared to push for a significant increase in market access/reduction in tariffs in the next round of WTO negotiations.

Export Subsidies: The U.S. has retained a significant EEP budget that it may be willing to give up as part of an international agreement to eliminate agricultural export subsidies. As is noted above, the EEP budget is large enough that the U.S. could use it before and during the WTO negotiations to encourage its trading partners to agree to a major result.

Comparison of Support with Ontario Grain Farmers

The U.S. PFC program is a seven year plan covering the 1996 to 2002 crop years. The Canada-Ontario Safety Net Agreement is a three year plan that provides producers with a 4% government matching contribution under the Net Income Stabilization Account (NISA) program and 85% coverage under the Market Revenue Insurance (MRI) program. Specifically, the enhanced NISA plan covered the 1995 to 1997 tax years , while the MRI component covers the 1996 to 1998 crop years.

In addition, U.S. grain and oilseed producers can benefit from an essentially free "catastrophic" crop insurance program which provides support at the level of 50% of the county yield average. When a claim is triggered, compensation is based on 65% of the market price. In Ontario, grain and oilseed producers pay half of the cost of crop insurance premiums, but receive coverage that is typically about 80% of their historical yield. When a claim is triggered, compensation is typically provided at market price levels. It is very difficult to compare these two systems, but it is fair to say that Ontario producers receive a much higher level of support, although they pay a higher price for it.

The support provided to U.S. producers through the PFC can be compared to the benefits Ontario farmers receive through NISA and the MRI programs. One way to perform such a comparison is to apply the two support regimes to a representative Ontario grain and oilseed farm. The analysis presented in Table IV attached is based on an Ontario grain and oilseed farm with 650 acres - 300 corn, 200 soybeans and 150 winter wheat. Care must be taken in interpreting the specific results because they will be different for each historical crop mix. One conclusion is clear from the analysis. Over a wide range of farm circumstances, the U.S. program provides more support as long as grain prices remain strong. Grain and oilseed prices would have to fall well below the MRI support levels before the Ontario support programs provide more support.

A major difference with the Ontario approach is that the programs are designed to deliver support when it is needed the most. In the case of NISA, the benefit outlined above is the matching government deposit. This is the point in time when the ownership of the funds transfers from the government to the producer. The farmer may not withdraw the funds, however, until they experience a low income year. Also, under the MRI program, payments are only delivered to producers when prices fall below specific support levels. Under the PFC approach, producers receive the same acreage payment regardless the market and income situation.

Summary/Conclusions

The FAIR Act represents a major shift in the U.S. government's approach to providing support to producers. It also takes the federal government out of the business of influencing what and how much farmers produce. In the short-term, these changes are not expected to have a measurable impact on producer decision-making and market prices. Over the medium to longer-term, however, the policy changes can be expected to:

- allow for greater swings in acreage planted, especially to soybeans when the market signals favour this crop (i.e. base acreage rules under previous Farm Bills would have limited soybean plantings); and

- result in higher production levels, at least at a time when grain stocks are burdensome (i.e. would be set-asides under previous Farm Bills).

The new Farm Bill has prepared the U.S. to push for major reforms in the domestic agricultural policy of its major trading partners during the next round of WTO negotiations. With this policy framework, U.S. producers are expected to be in a strong competitive position. One of the factors that will contribute to this competitive position are the PFC payments. With strong grain and oilseed prices and PFC payments, U.S. producers will be in a good position to pay-down debt or invest in new machinery or technology over the next few years.

The U.S. agricultural policy debate will not be dormant over the next seven years. Federal government budget pressure can be expected to continue to have an influence on U.S. policy. There will also be policy debates over the next few years on issues like nutrition, research, education and credit because they were not fully addressed in the Farm Bill.

Table I: Estimated Crop Payments Under the Production Flexibility Contract Program						
Crop Year	Total	Wheat	Corn	Barley	Sorghum	Oats
	US$ Billions	$/Bushel (minimum figures based on 100% program participation)				
1996	5.57	0.87*	0.24	0.32*	0.31	0.03*
1997	5.39	0.61	0.46*	0.25	0.50*	0.03
1998	5.80	0.65	0.36	0.26	0.42	0.03
1999	5.60	0.63	0.35	0.24	0.40	0.03
2000	5.13	0.57	0.32	0.22	0.37	0.03
2001	4.13	0.46	0.26	0.18	0.30	0.02
2002	4.01	0.45	0.25	0.17	0.29	0.02

* Includes the following refunds of target price overpayments: wheat - $0.25/bu.; corn - $0.13/bu.; barley - $0.09/bu.; sorghum - $0.11/bu; and oats - $0.01/bu.

Table II: Example of PFC Payments: Grain and Oilseed Farm - 1996 Crop					
Crop	Per Bushel Payment ($US/bu)	Base Yield* (bu/acre)	Base Acreage	85% of Base Acreage	Payment ($US)
Corn	0.24	120	300	255	7,344
Wheat	0.87**	60	150	127.5	6,656
Soybeans	-	40	200	170	-
Total	-	-	650	552.5	14,000***

* Frozen at 1985 levels.

** Includes 25 cents per bushel from repayment of 1995 target price overpayment.

*** Assuming a 73 cent Canadian Dollar, this is the equivalent to just over $19,000 Canadian.

Table III: FAPRI Forecast of Major US Farm Prices: 1996 to 2002 (US $)							
Commodity	1996	1997	1998	1999	2000	2001	2002
Corn ($/bu)	2.75*	2.46	2.31	2.23	2.29	2.33	2.43
Wheat ($/bu)	3.78*	3.37	3.43	3.43	3.45	3.24	3.21
Soybeans ($/bu)	6.50*	6.26	5.74	5.57	5.54	5.68	5.86
Soybean Meal ($/ton)	198.96*	195.59	183.65	180.37	181.44	187.37	193.92
Hogs ($/cwt)	46.00	47.71	45.15	40.64	43.51	47.20	43.42
Feeder Cattle ($/cwt)	60.90	62.31	71.27	78.45	87.55	91.17	96.60
Milk ($/cwt)	12.89	12.87	12.78	12.73	12.31	12.41	12.55

* Forecast was released in April - an updated forecast would likely show higher prices.

Table IV: Example Comparing Support Under U.S. and Ontario Programs - Ontario Grain and Oilseed Farm					
Crop Year	Ontario Programs ($ Canadian)			U.S. Program (PFC)	
	NISA	MRI*	Total	U.S.$	Can $**
1996	10,000	0	10,000	14,000	19,178
1998	7,000	18,000	25,000	15,989	21,903

* Assumes that market prices will exceed support levels for the 1996 crop and that Ontario grain and oilseed prices will fall to the following levels in 1998: corn - $2.80/bu.; soybeans - $7.00/bu.; and winter wheat - $130/tonne (farm gate).

** The value of the Canadian dollar is assumed to be 73 cents U.S..